



OXFORD ANALYTICA

EGYPT

FISCAL TRANSPARENCY

Country Report 2005

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EGYPT



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2005	2004	2003	2002
Clarity of roles	•••	••	••	••
Availability of information	••	••	••	••
Budget preparation	•••	••	••	••
Accountability	••	••	••	••
Score	2.50	2.00	2.00	2.00

OUTLOOK & COMMENTARY

Egypt has embarked on a series of ambitious reforms this year, demonstrating its commitment to improving fiscal policy and fiscal transparency. Budget preparation is improving with the modernisation of Egypt's budget classification to the IMF Government Financial Statistics Manual (GSFM) 2001 standard. The creation of a macro-fiscal unit within the Ministry of Finance (MoF) should also lead to the implementation of medium-term budget forecasts and fiscal sustainability analysis for the 2007 budget. An 'e-governance' budget automation project and a single treasury account will also improve financial management and budget preparation and execution.

One of the largest reforms this year was the reform of the tax system. The government has sought to simplify procedures and implement public awareness programmes in an effort to broaden the tax base and increase transparency. The privatisation programme has restarted both for public sector banks and other state enterprises. The restructuring of the social security funds should also take place in the coming year.

Although Egypt successfully subscribed to the IMF Special Data Dissemination Standard (SDDS) this year, problems remain with fiscal data quality and dissemination. Public spending reviews currently being carried out may lead to the introduction of performance-based budgeting in coming years.

EXECUTIVE SUMMARY

2.50 Intent declared

Following the appointment in 2004 of Youssef Boutros-Ghali, a long-standing economic reformist, as minister of finance, Egypt has embarked on a series of ambitious reforms this year that demonstrate its commitment to improving fiscal policy and its transparency.

Budget preparation is improving with the modernisation of Egypt's budget classification to the IMF Government Financial Statistics Manual (GFSM) 2001 standard. The creation of a macro-fiscal unit should also lead to the implementation of medium-term budget forecasts and fiscal sustainability analysis for the 2007 budget, which, given the government's increasing budget deficit, is much needed. Financial management efficiency within the Ministry of Finance (MoF) should also increase in the coming year, particularly with the establishment of a single treasury account within the central bank so that all revenues go to one place. The MoF has successfully implemented the first phase of an 'e-governance' budget automation project this year. An Automated Government Expenditure System (AGES) has led to a more efficient preparation of the budget. Further stages will involve, among other items, online linkage of other ministries' budget preparations, actual expenditure recording and tracking, and automated issuance of end of year closing accounts. AGES has also been designed to work in tandem with the new GFSM budget classification and will make medium-term budget forecasting feasible.

The new government has restarted the privatisation process. Of the four public sector banks, two are in the process of merging and another is to be privatised by the end of 2005. Other state enterprises such as Telecom Egypt are on the agenda and will soon follow. The government is also planning to implement much needed reforms to the social security funds in order to improve their management and to make them more sustainable. The government will eventually privatise these funds as well.

After many years of unfulfilled promises, major reforms have taken place in the tax system this year and are evidence of the new government's commitment to large-scale economic reform. A new Income Tax Law has been passed which aims to increase the transparency of the tax system, tariffs have been reduced substantially and a new Sales Tax Law will go to parliament in the coming months. The MoF hopes that the lower, simpler rate and public awareness programmes will encourage more companies to register, thus broadening the tax base. As Egypt's tax system was previously considered relatively opaque, these measures should help to change negative public perceptions of the tax system. However, as these reforms have occurred so rapidly, it will take some time for operations to run smoothly.

Egypt successfully subscribed to the IMF Special Data Dissemination Standard (SDDS) this year. However, while meeting SDDS requirements is commendable, there is still room for improvement in terms of the periodicity and timeliness of the data. On a general level, it may be some years before fiscal data quality and dissemination by the government meet the standards set out in the IMF codes on fiscal transparency.

Egypt's overall score has improved from 2.00 in 2004 to 2.50

1. CLARITY OF ROLES, RESPONSIBILITIES AND OBJECTIVES



Enacted

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions and responsibilities of government

There has been no major change in the system of government in Egypt in the past three years. The structure and the general responsibilities of the different levels of government are as set out in the Egyptian Constitution¹ and subsequent presidential decrees and amendments concerning the restructuring of ministries. The constitution specifies the divisions between the legislative, executive and judicial authorities, as well as local government and civil community institutions. An amendment to Article 76 of the Constitution passed by parliament in May 2005 provides that the president -- who is the head of state -- is to be elected in direct public elections contested by more than one candidate. Previously, the president was nominated by a two-thirds majority of the parliament and elected by referendum. The presidential term is six years and may be extended to an unlimited number of additional consecutive terms.² The president has the power to veto legislation, and presidential decrees have the force of law. Among other things, the parliament approves the budget and development plans.

Since the launch of an economic reform programme in 1991, the government sector in Egypt has become more distinct from the rest of the public sector. At the same time, the role of the private sector in the economy has grown and, as a result of recent reforms, clarity regarding economic and fiscal objectives has increased.

In July 2004 a notable change was made in high-level government personnel with the appointment of a new prime minister and a cabinet principally comprised of younger figures than previously and including some well-regarded economic liberals. The new government was brought in with a mandate to speed up the pace of reform, which was widely considered to have slowed in recent years. The new minister of finance is the former minister of foreign trade, Youssef Boutros-Ghali, a long-standing economic reformist and member of the government. The minister has also installed an eight-person team of highly experienced individuals, mainly drawn from the private sector, to assist in rolling out the reform programme. Furthermore, for the first time the economic team consisting of the minister of finance, the governor of the central bank, and the minister of foreign trade appear to share a similar vision and approach to reform. Commentators judged that there was also improved clarity over the division of responsibility between the Ministry of Finance (MoF), the Ministry of Foreign Trade and Industry, the Ministry of Investment, and the Central Bank of Egypt (CBE).³

In an indicator of its ideas and aims, the new government with many experienced and qualified individuals has set fiscal reform as one of the major planks of its reform programme. The IMF commented this year that: "The ongoing efforts to modernize Egypt's budget classification and treasury cash management, improve tax administration, and reform the income tax clearly demonstrate the priority the government has assigned to fiscal policy in its reform agenda."⁴ In its first year the government has indeed made a substantial number of improvements and although some difficult choices must be made in the coming years, commentators thought it unlikely that the government would reverse reforms. However, it is not clear to what extent momentum for reform has spread into other ministries.⁵

A single treasury account is gradually being set up so that all revenues go to one account in the central bank. Historically, the government opened separate accounts for each new project in both public and commercial banks, which has made cash management difficult. A single account will increase transparency as well as improving the financial management of funds. It should also enable the government to target the reduction of the Public Sector Borrowing Requirement. The establishment of the single account will be gradual as withdrawing funds from banks immediately would be destabilising. Legislative changes will also be necessary; these will be presented in the forthcoming parliamentary session and should be passed within the next year.⁶

Coordination and management of budgetary activities

Fiscal policy operations in Egypt are highly centralised, and few data are available on the fiscal position of sub-national levels of government. However, the new minister of finance has indicated that he aims to devolve some of the responsibilities for budget coordination and management. Egypt's economic ministries and organisations have been the subject of a succession of reorganisations over the past five years. In the latest reorganisation, in 2004, the Ministry of Foreign Trade (MoFT) became the Ministry of Foreign Trade and Industry (MoFTI). While the general mandate of the MoF -- to manage government finances, fiscal planning and budgetary activities -- is essentially clear, the MoF still needs to clarify the modalities of its responsibilities and to improve its dissemination of data and information.

This year a macro-fiscal unit has been set up with the help of the IMF. It is in its early stages at present, but for the release of the 2007 budget, it is aiming to carry out medium-term budget projections and fiscal sustainability analysis. It will coordinate with the Ministry of Planning and the CBE who are also involved in forecasting.⁷

The new minister of finance has successfully implemented the first phase of an 'e-governance' budget automation project this year. With the consultation of a private company, an Automated Government Expenditure System (AGES) has been put into place to help the Ministry of Finance prepare the budget more efficiently. As a result, the accuracy and speed with which the budget is now prepared has increased considerably. Further stages will involve, among other items, online linkage of other ministries' budget preparations, actual expenditure recording and tracking, and automated issuance of end of year closing accounts. AGES has also been designed to work in tandem with the new GFS budget classification and will make medium-term budget forecasting feasible.⁸

Under the new government the line between fiscal and monetary responsibilities and activities is also likely to be clarified. The basic relationship between the two areas of responsibility is set down in the Central Bank Law, which stipulates that the CBE is the Treasury's debt agent. Officially the MoF and the CBE are largely autonomous and coordinate at the cabinet level. Hitherto, however, there have been no permanent mechanisms or mandatory procedures for direct coordination between them, although there have been some improvements in coordination in the last two years.⁹

Relations between government and public sector agencies

The government sector in Egypt is, in general, adequately distinguished from the rest of the public sector. However, areas of uncertainty remain, particularly over controls and powers, and can be seen in the difficulties the government has in regulating certain public sector agencies. Two prominent examples are the National Investment Bank (NIB) and the national social security funds (SSFs). However, the proposed SSF structural reform and removal of many of the functions of the NIB this year are helping to improve the situation.

Established in 1980, the NIB's task is to finance government capital expenditure. Deposits come from three areas; pensions funds, investment certificates from the National Bank of Egypt, and post office savings accounts. In 2001 the NIB was brought under the umbrella of the MoF by ministerial decree 418, which gave the ministry the authority

to monitor and enforce fiscal discipline over investment expenditures. Transparency in the operations and activities of the NIB have improved to some extent as the NIB now has a separate line in the central bank accounts, but NIB's audits which are reviewed by the central auditing agency, are not available to the public.¹⁰

However, the central bank's sources of funds, and its mission, are changing. Pensions reform means that funds now lie with the ministry of finance and the state enterprises that the bank used to finance are increasingly being privatised. Therefore there is now an ever-reducing role for the NIB and it is unclear what will happen in the future.¹¹ Meanwhile, the MoF had not announced any plans to change the operation of the SSFs. Neither is the SSF's contribution to GDP reflected in the national accounts.¹²

Government involvement in the private sector

In part the government's long-running attempts at economic reform have contributed to a clearer differentiation between the public and private sectors. In the past there were no publicly disclosed rules or guidelines for government involvement in the private sector, whether in terms of regulation or of equity ownership, but continuing legislation and further privatisation have improved the situation.

The new government has restarted the privatisation process and privatisation of the banking system is progressing rapidly. Of the four public sector banks, the Banque Du Cair and Banque Misr are in the process of merging and a World Bank loan will recapitalise the merged bank after separate audits have been completed. The Bank of Alexandria, the smallest of the four, will be privatised by the end of 2005 after restructuring and a comprehensive audit has been completed. The remaining bank, the National Bank of Egypt, is currently being restructured, and an audit is taking place, but there are no immediate plans for privatisation. The Suez Cement Company was sold off in March 2005 and other state enterprises are to follow; the privatisation of Telecom Egypt should be completed by January 2006 and oil firms are next on the agenda. Restructuring and then privatisation of the social security funds (SSF) is also planned and will progress further in the coming year.¹³

Egypt's first anti-trust law was passed in June 2005. Although welcomed by the private sector, it needs further clarification before it can be successfully implemented. Commentators noted that the minimum market share constituting a monopoly is not adequately defined; neither is there any methodology for how to assess market share. Utilities and infrastructure are exempted from the law and mergers and acquisitions are not discussed. The UK Competition Commission is being consulted for advice in effective implementation.¹⁴

There should be a clear legal and administrative framework for fiscal management

Legal framework for budgetary activities

The current legal framework for budgetary activities is as set out in Law No. 53 of 1973 and subsequent amendments and budgetary regulations. The ministry is required to review the budgets submitted to it by relevant public agencies and to "consult with the CBE in order to ensure coordination between fiscal, monetary, and credit policies within the framework of both the approved annual plan targets and the overall policies of the state."¹⁵ The MoF is authorised to issue treasury bonds, through consultation with the CBE, and to issue relevant executive regulations as required.¹⁶ On this basis, the administrative framework for fiscal management is largely determined by the MoF itself.

Budgetary reform is progressing under the new government. Law 97/2005, passed this year, provides for budgets to be prepared according to the IMF 2001 Government Finance Statistics Manual (GFSM 2001). It is possible that future reforms will also cover the basic legal and administrative framework for fiscal management, which has not changed in several years.¹⁷

Legal framework for taxation

After many years of unfulfilled promises, major reforms have taken place in the tax system this year in Egypt and are evidence of the new government's commitment to large-scale economic reform. Firstly, a new Income Tax Law No. 91/2005 makes the tax system more transparent for both national and foreign investors, cuts personal and corporate income taxes and unifies tax exemptions and legislations. The MoF also hopes that the lower, simpler rate will encourage more companies to register, thus broadening the tax base. The MoF has also set up a large taxpayers centre, to collect the 80% of company taxes that come from 2,000 of Egypt's largest firms. Secondly, there have also been customs reforms with the average tariff-rate reduced from 14% to 9% and with customs administration simplified. Commentators were pleased with the reforms, but cautioned that as they occurred so rapidly, it will take some time for operations to begin to run smoothly.¹⁸

A new draft sales tax law will soon be presented to the People's Assembly in the next session, which will be the last step in the series of reforms to income tax and customs duty already completed this year. It features measures to alleviate the tax burden on small investors and addresses flaws in the current law. Publicly available information on all tax changes is of a good standard as the government has invested in public awareness programmes; query forms and simple descriptions of all the different taxes are also to be provided on the new MoF website and also on the sales tax website.¹⁹ As Egypt's tax system was always thought to be opaque and complicated, it is hoped that these measures will significantly change negative public perceptions of the tax system.

Ethical standards for public servants

A code of practice does exist and is publicly available, but the extent to which it is followed in practice is limited.

2. PUBLIC AVAILABILITY OF INFORMATION

●● Intent declared

The public should be provided with full information on the past, current and projected fiscal activity of government.

This year, the MoF has established a comprehensive and well-designed website for its activities. Explanations of intentions and policies are clear, although many of the links, especially to publications, have not been made live.²⁰ Principal publications have changed with the arrival of the new finance minister. Those disseminating fiscal information on a regular basis are the *Monthly* and *Quarterly Economic Digest* published by the MoFTI and the *Quarterly Egyptian Economic Monitor* and a quarterly *Selected Economic and Financial Indicators*, published by the MoF. Fiscal data in both digests are derived from the MoF.²¹ The Cabinet Information and Decision Support Centre also publishes the *Egyptian Economic Bulletin (EEB)*.²² The EEB contains data on overall macroeconomic and sectoral performance.

Central government operations

Although the availability of some types of data has improved, the overall level and quality of information published on central government operations remains inadequate. The new MoF website publishes summary information on national budget operations, including revenues and expenditures.²³ However, the website does not provide an explanation of policy developments or economic targets.

Commentators stated that a new television channel for parliament had helped to increase transparency. It broadcasts all sessions and the budget is discussed frequently in parliament.²⁴

A fundamental problem is the lack of a single, comprehensive publication of the budget. A simplified version of the authorised annual budget is published in the *Official Gazette*, and a more detailed version is presented to parliament.²⁵ An 86-page *Financial Statement on the State Draft Budget for 2005-2006* is published on the MoF website this year; a comprehensive document on the finalised budget is only available in Arabic and is waiting to be translated into English before it is published on the website.²⁶

Public sector operations

The availability of information on public sector operations has improved over the past few years only in so far as information has sometimes been disseminated on public institutions or state-owned enterprises which have been marked for reform or privatisation. Commentators have expressed the need for more information on public sector companies such as published financial statements. Whether or not availability of information improves over the near term will depend largely on the progress the new government makes in its reform and privatisation plans.

Major public institutions and state-owned enterprises include the General Authority for Petroleum; the General Authority for Supply Commodities; the Electricity, Suez Canal, and Ports Authorities; and the General Authority for Industrialisation. Historically, the government has covered any losses made by these entities, although in law they are separated from the national budget.²⁷

A commitment should be made to the timely publication of fiscal information.

The IMF Special Data Dissemination Standard (SDDS), to which Egypt successfully subscribed in January 2005, is the main framework for government commitment to the timely publication of fiscal information. This has been achieved under the auspices of a five year project supported by the US Agency for International Development (USAID), the Data Access and Transmission Activity (DATA) project, a steering committee bringing together the MoF, the Ministry of Planning (MoP), the CBE, the Central Agency for Public Mobilisation and Statistics (CAPMAS) and other ministries and government agencies, which have assisted with the gradual introduction of the SDDS.²⁸ All 21 core SDDS requirements have now been achieved and data is now available on the IMF's SDDS bulletin board and the MoP website. However, commentators noted that while meeting SDDS requirements is commendable, there is still much room for improvement in terms of the periodicity and timeliness of the data.²⁹ For example, the IMF highlights that since subscription there remains a 45-day lag in the release of fiscal data.³⁰

Debt reporting

The reporting of debt data is considerably better than for most other fiscal data. The CBE is the principal debt reporting body, compiling domestic and external debt data from internal sources, the MoF, and the NIB. The CBE publishes these data in its *Monthly Statistical Bulletin*. These data are reproduced in the publications of other ministries, in particular the *Quarterly Economic Digest* and *Monthly Economic Digest* of the MoFTI. Data are given for external debt by type, cumulative arrears and the profile of external short-term debt and medium- and long-term public and publicly guaranteed debt. Similar data are given for domestic debt, including the level of government borrowing from the NIB.

Advance release calendars

As part of the introduction of SDDS, since mid-2004 an advance release calendar for fiscal information has been in place. However the usefulness of the calendar will remain limited until the MoF begins to disseminate data directly, rather than indirectly through publications of the MoFTI and the *Official Gazette*.

3. OPEN BUDGET PREPARATION, EXECUTION AND REPORTING



Fiscal policy objectives, macroeconomic framework and risks

Fiscal policy objectives

Egypt's fiscal policy objectives, where published, usually reflect the opposing pressures of the government's reform targets and domestic opposition to unpopular reforms and cuts. In the past, new fiscal policies have been disseminated through the MoF and press statements, though not in a consistent or regular way, and fiscal policy objectives have not been included in published budget documentation. It is also unclear to the public which institutions are important for making economic policy.

Over the recent past the government has sought to develop the capital market in Egypt to improve its deficit financing options, and in 2004 it began to introduce long-term treasury bonds. At the same time, the budget deficit has grown, though not dangerously. In 2004-05, the unconsolidated budget deficit was expected to be around 7.5%, while the consolidated deficit (excluding spending on SSFs) was expected to be around 4-5%.³¹ The MoF attributes most of the recent deficit increases to the economic downturn, which has meant that increases in spending have exceeded increases in revenues.

Macroeconomic framework

The main official macroeconomic framework for the country can be found in the MoFTI's *Quarterly Economic Digest*.

Fiscal risks

The limited published budgetary documentation does not currently provide an assessment of fiscal risks. Information is not available on how extra-budgetary transactions are handled, although it is clear that there are many such transactions. Some extra-budgetary expenditure or 'leaks' have been admitted by the government, but there is little public confidence that these represent the total of such leaks. In its Article IV consultations with Egypt in 2004, the IMF noted that off-budget expenditure was set to drive up the fiscal deficit during 2004-05.³² Commentators add that the problem relates to classification creating a gap between the financing of the government sector and the difference between revenues and expenditures.³³ However, it is hoped that with continuing fiscal reform, the situation will start to improve.

Fiscal sustainability

Although government officials sometimes discuss aspects of fiscal sustainability, at present few official economic publications contain a detailed assessment of sustainability. Historically the main issue for fiscal sustainability has been unmanaged or unsustainable debt growth, arising from the dependence of the budget on fluctuating revenues and weaknesses in spending controls.³⁴ However, this is likely to change now with the introduction of a macro-fiscal unit, which is aiming to carry out medium-term budget projections and a fiscal sustainability analysis for the 2007 budget.³⁵

As part of the decentralisation process for public expenditure and revenue mobilisation, four public expenditure reviews (PERs) were commissioned in July 2004 for the ministries of education, health, transport and water, while other ministries should be covered in subsequent years.³⁶ Drafts have now been completed with the assistance of the World Bank and line ministries are considering the recommendations on procurement and financial management. These PERs form the base for medium-term plans to move to performance-based budgeting with pilot projects in health and education. The outcomes and next steps will be made public in the coming year.³⁷

The government is in the process of reforming the social security funds (SSF), something that has needed action for some time. Previously, the system was not sustainable so plans for major structural reforms have been drawn up and the World Bank is reviewing the final report. The new proposal is to move from a publicly managed, defined benefits scheme to a privately managed, defined contributions scheme and to cease paying excess funds to the National Investment Bank -- something which allowed the government to filter money into other projects with few legal impediments. Therefore, SSF structural reform should also improve transparency in fiscal management.³⁸

Budget presentation

The main channel for public presentation of the budget is Egypt's parliament. Articles 86 and 115 of the constitution stipulate that the budget is to be submitted to parliament two months prior to the close of the fiscal year. Each provision must be approved separately, and the final parliamentary session discussing the budget must not close until the budget is approved. The parliament can only make modifications to the draft budget with the approval of the government. If the new budget is not ratified before the start of the new fiscal year, the old budget will be used until the new budget is ratified.³⁹

However, as already indicated, presentation of the budget remains unsatisfactory. Even after parliament has approved the budget, the amount of information disseminated to the public, and even to government ministries and institutions, is very limited. In effect, within the public sector, sections of the overall budget document are disseminated only on a "need-to-know" basis. However, transparency has improved this year. The budget classification system has been upgraded (prepared in accordance with GFSM 2001) and indirect subsidies are also included as separate lines in the budget.⁴⁰

Data reporting

The problem of the lack of a single, comprehensive budget document, which is publicly available or distributed across government ministries and public institutions, is compounded by the use of multiple budget data classification or reporting frameworks. In 2002, the MoF introduced a new three-tier reporting framework, prepared with the assistance of the IMF. Currently, the CBE produces two versions, one with a narrow definition of the government sector, another with a broader view. The MoF's budget report falls somewhere in the middle of these two extremes. However, under existing legislation a different framework must still be used for the presentation of budget information to parliament.

Following technical assistance from the IMF in 2004, substantial improvements are being made to budget data. Passed this year, Law 97/2005 provides for the 2005/2006 budget (and all subsequent budgets) to be prepared according to the IMF GFSM 2001. Under this system, the budget will also be prepared using a medium-term framework. Commentators have stated that problems remain in budget reporting; specifically that reporting is still cash-based rather than accrual-based.⁴¹

Budget execution and monitoring

The Office of Management and Budget at the MoF oversees and monitors budget execution. There continues to be a lack of transparency in budget targets and overall responsibility for budget control. Budget figures debated in the parliament continue to be more generous than the final figures published in the *Official Gazette*, and it is still not clear to what degree the MoF adheres to these published figures. The MoF has started work on decentralising spending control with the assistance of the World Bank, although the precise methodology is undecided as yet.⁴² Progress will need to be made in improving budget execution and monitoring practices through increased reporting, more systematic use of standards and common methodologies, and initiatives in performance-based budgeting.

Accounting basis

Accounting standards are specified by the MoF and the Egyptian Society of Accountants and Auditors, which is a member of the International Accounting Standards Committee (IASC) and the International Federation of Accountants. Past budget data are reported on a gross basis. The overall balance of the general government budget is reported in the MoFTI's *Monthly Economic Digest* as a 'Summary of National Budget Operations'. This showed quarterly revenues from: central government; tax; transferred profits; other non-tax sources; local government; public service authorities; investment self-financing; and sales of assets or other capital revenue.

Procurement and employment

Contrary to some expectations, a new government procurement system was not established in 2004. Transparency in procurement therefore remains poor. The procurement law allows government departments considerable discretion to confine procurement to preferred suppliers, in addition to which the prime minister is able to determine the terms and conditions of tenders for certain public entities. Information on the total annual value of procurements is not publicly disseminated. The government has asked the World Bank for assistance to further improve procurement practices, and an assessment has been carried out in order to identify key areas for reform.

Egypt's civil service is still disproportionately large and perceived as inefficient. Some efforts have been made to introduce incentive schemes. However, cuts are likely to encounter considerable popular resistance, at least from the urban middle classes. It remains to be seen whether the new government will attempt large-scale reforms.

Fiscal reporting

The constitution requires that the final accounts of the national budget be presented to parliament within a year of the end of the fiscal year.⁴³ Parliamentary scrutiny of economic and financial affairs -- including the budget -- has improved but remains weak. The improvement is partly the result of an increase in the number of members of parliament with business and financial experience, but also of the government being more open to discussion.

The MoF does not publicly disseminate any final annual fiscal report, and final accounts are instead only publicly available through the fiscal reporting system of the MoFTI and the IMF. However, information on the consolidated fiscal operations of the general government is available through the *Monthly Statistical Bulletin* released by the CBE. Commentators state that it would be better if there were only one source of fiscal data from the MoF, rather than releases from the CBE and the MoFTI also.⁴⁴ Statements and announcements from the minister of finance are reported on an ad hoc basis by the Government Information Service, the local media and other independent publications such as the *Egypt Capital Markets Daily*. However, the overall level of reporting is poor.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

●● Intent declared

Data quality standards

The introduction of the SDDS has yet to bring a significant improvement in data quality, and it is likely to be several years before data-users are confident that official fiscal data accurately reflect revenue expenditure trends and overall macroeconomic developments. As of 2005, published fiscal data were still not accompanied by sufficient assurances of quality, and both the IMF and independent data-users still expressed dissatisfaction regarding published fiscal data.⁴⁵ Concerns also remain regarding consistency in the data compilation methodologies used by different ministries and government agencies. The recent subscription to the SDDS therefore needs to be followed up by initiatives to improve data quality. In 2004 the IMF encouraged the Egyptian authorities to implement the recommendations of an IMF Review of Standards and Codes (ROSC) for data, carried out in 2003. The government has now sent an official response on the 2003 ROSC to the IMF, but much work remains to be done.⁴⁶

The IMF has also noted that there is a need for more improvement in the government's statistics strategy. Such shortcomings impede the quality of economic analysis and policy formulation. Priority is needed for fiscal accounts, price information, and balance of payments as well as GDP, employment, and wages. Better coordination among agencies would aid such improvements.⁴⁷

Independent scrutiny of fiscal information

Independent audit

The Central Auditing Agency (CAA) is responsible for the *ex post* review of the final budget accounts. The CAA is tasked with controlling government funds and those of other public bodies and its responsibilities are set out in Law No. 144 of 1988. The Law specifies that the CAA is an independent body, with corporate public stature. Recently brought under the wing of the prime minister's office, the CAA has been actively engaged in the government's efforts to privatise the public sector and to work towards financial transparency.

The CAA audits the accounts that line ministries send to the MoF. Parliament then reviews the final report of the CAA, which focuses primarily on accounting irregularities. The CAA's annual report is not distributed outside government circles, and as a result it is difficult to assess the quality of scrutiny of fiscal information.

The CAA has taken steps to bring public sector accounting and auditing into line with internationally accepted standards. In addition, the new government has said that it plans to introduce a new law on accounting and auditing standards and the MoF is considering setting up its own internal audit department.⁴⁸

National statistics agency

The Central Agency for Public Mobilisation and Statistics (CAPMAS) is the national body for statistics. The head of CAPMAS reports to the MoP, although the agency is otherwise formally independent. As part of the DATA project, procedures for the compilation of national accounts data have undergone extensive revision. Previously both CAPMAS and the MoP worked on this data, but this task has now been unified into one body -- the National

Accounts office -- which reports directly to the minister of finance. Extensive training on accounting has taken place across five main ministries. The System of National Accounts (SNA) has been adopted and a seven-year time series is available for 1995-2002. Equivalent data are also being produced for 2003 onwards. Steps are also being taken to improve future capacity by hiring and training younger staff.⁴⁹

In recent years, CAPMAS has made significant improvements in data dissemination. As an example, in 2004 a public relations office was established at CAPMAS and at the National Information Centre. Improvements have also been made in specific statistical areas. CAPMAS has been preparing a quarterly labour survey and working on improving the national consumer price index. With technical assistance from the IMF, it has also begun work on construction of a producer price index, although trade and social services figures need to be added before it is complete. There are plans also to unify foreign trade statistics, which as of 2004 were being produced by CAPMAS, the Customs Authority and the CBE. However, steps have yet to be taken to increase public confidence in the quality of statistics. Such steps could include strengthening the independence of CAPMAS or inviting independent experts to provide a comprehensive assessment of CAPMAS's methodology and outputs.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Egypt between 14 and 21 November 2005:

Ministry of Finance

15 November 2005

Amina Ghanem	Advisor to the Minister	Ministry of Finance
Hisham Tawfik	Advisor to the Minister	Ministry of Finance
Ole K. Hovland	(IMF) Advisor to Minister	Ministry of Finance

Central Bank of Egypt

16 November 2005

Mohammed Hassan	Monetary Policy Advisor to the Governor	Central Bank of Egypt
Rania Al-Mashat	Head, Monetary Policy Stance Monetary Policy Unit (MPU)	Central Bank of Egypt
Samia Torky	General Manager, MPU	Central Bank of Egypt
Amr Abol-Enein	Consultant, Banking Reform Unit	Central Bank of Egypt
Lobna Helal	Assistant Sub-Governor Banking Reform Unit	Central Bank of Egypt

ADDITIONAL INTERVIEWS

14 November 2005

Nasr Tantawi	Project Coordinator	DATA project USAID / Booz Allen & Hamilton Ministry of Planning
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16 November 2005

Tim Stew	Head of Economic and Political Section	British Embassy in Cairo
Hanaa Ramzy	Economic Officer	British Embassy in Cairo
Sahar Nasr	Senior Financial Economist	World Bank

14 November 2005

Hany Genena	Senior Economist,. Research Department	EFG-Hermes (brokerage and investment bank)
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21 November 2005

Cyrus Sassanpour	Senior Resident Representative	IMF
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NOTES

- ¹ Part 5, Articles 73-184, Egyptian Constitution 1971.
- ² Egyptian Constitution; www.pogar.org/countries/constitution.asp?cid=5
- ³ Interviews in Cairo, 14-21 November 2005.
- ⁴ Press release on Article IV Consultation 2005, 16 February 2005 at www.imf.org/external/np/sec/pr/2005/pr0529.htm
- ⁵ Interviews in Cairo, 14-21 November 2005.
- ⁶ Interviews in Cairo, 14-21 November 2005.
- ⁷ Interviews in Cairo, 14-21 November 2005.
- ⁸ Raya newsletter at www.rayaholding.com/pdf/Newsletter/Issue22.pdf, p12
- ⁹ Interviews in Cairo, 14-21 November 2005.
- ¹⁰ Interviews in Cairo, 14-21 November 2005.
- ¹¹ Interviews in Cairo, 14-21 November 2005.
- ¹² Interviews in Cairo, 28 September-11 November 2004 and 14-21 November 2005.
- ¹³ Interviews in Cairo, 14-21 November 2005 and Ministry of Investment at www.investment.gov.eg/MOI_Portal/Assets_Management/Read+More+about+Asset+Managment/
- ¹⁴ Interviews in Cairo, 14-21 November 2005.
- ¹⁵ Law No. 53 of 1973, amended by Law No. 11 of 1979, executing regulations No. 323 of 1983 and Law No. 40 of 1996 in respect of the state budget.
- ¹⁶ Articles 1-2 and 7-8, Law no. 4 of 1995 authorising the minister of finance to issue treasury bonds; see also Article 8, Annual State Budget Law.
- ¹⁷ Interviews in Cairo, 14-21 November 2005.
- ¹⁸ Interviews in Cairo, 14-21 November 2005 and Ministry of Finance Activities and Achievements at www.mof.gov.eg/Activitiesandachievements.pdf
- ¹⁹ See www.salestax.gov.eg/ and www.mof.gov.eg/default.aspx
- ²⁰ www.mof.gov.eg/default.aspx
- ²¹ Interviews in Cairo, 14-21 November 2005.
- ²² Egyptian Economic Bulletin website, available at: www.economic.idsc.gov.eg/
- ²³ Available at www.mof.gov.eg/default.aspx
- ²⁴ Interviews in Cairo, 14-21 November 2005.
- ²⁵ Interviews in Cairo, 28 September-11 November 2004.
- ²⁶ Interviews in Cairo, 14-21 November 2005. Also see www.mof.gov.eg/pdf/The%20fiscal%20%20statement%20on%20the%20FY%202005.pdf
- ²⁷ As established by Law No. 11 of 1929.
- ²⁸ Data Access and Transmission Activity (DATA), at: www.data-egypt.org
- ²⁹ Interviews in Cairo, 14-21 November 2005.
- ³⁰ IMF Article IV Consultation 2005 at www.imf.org/external/pubs/ft/scr/2005/cr05177.pdf
- ³¹ Interviews in Cairo, 28 September-11 November 2004. For an overall assessment of the economy, see the IMF Public Information Notice for Egypt, No. 04/69, 12 July 2004, available at: www.imf.org/external/np/sec/pn/2004/pn0469.htm
- ³² IMF Public Information Notice for Egypt, No. 04/69, 12 July 2004, available at: www.imf.org/external/np/sec/pn/2004/pn0469.htm
- ³³ Interviews in Cairo, 14-21 November 2005.
- ³⁴ For a discussion of structural weaknesses in the budget and debt levels, see Pedro Alba, Sherine al-Shawarby and Farrukh Iqbal, 'Fiscal and public debt sustainability in Egypt', Working Paper no. 97, May 2004, Egyptian Centre for Economic Studies.
- ³⁵ Interviews in Cairo, 14-21 November 2005.
- ³⁶ Interviews in Cairo, 28 September-11 November 2004.
- ³⁷ Interviews in Cairo, 14-21 November 2005 and Ministry of Finance Activities and Achievements at www.mof.gov.eg/Activitiesandachievements.pdf
- ³⁸ Interviews in Cairo, 14-21 November 2005.
- ³⁹ Article 115, Egyptian Constitution.
- ⁴⁰ Interviews in Cairo, 14-21 November 2005.

⁴¹ Interviews in Cairo, 14-21 November 2005.

⁴² Interviews in Cairo, 14-21 November 2005.

⁴³ Article 118, Egyptian Constitution.

⁴⁴ Interviews in Cairo, 14-21 November 2005.

⁴⁵ Interviews in Cairo, 28 September-11 November 2004 and 14-21 November 2005.

⁴⁶ IMF Public Information Notice for Egypt, No. 04/69, 12 July 2004, available at:

www.imf.org/external/np/sec/pn/2004/pn0469.htm

⁴⁷ IMF Article IV Consultation 2005 at www.imf.org/external/pubs/ft/scr/2005/cr05177.pdf, p.20

⁴⁸ Interviews in Cairo, 14-21 November 2005.

⁴⁹ Interviews in Cairo, 14-21 November 2005.